

**TRANSITION ADVISORY COMMITTEE**  
**Universal System Benefits Program Subcommittee**

February 14, 2002

Original Minutes with Attachments

Please note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes and Exhibits are on file at the offices of the Legislative Services Division.

**SUBCOMMITTEE MEMBERS PRESENT**

Rep. Dell, Chair	Mr. Leuwer
Sen. Ellis	Com. Brainard
Rep. Keane	Mr. Hardy
Sen. McNutt	Ms. Young (for Mr. Corcoran)

**SUBCOMMITTEE MEMBERS EXCUSED**

Rep. Fisher

**STAFF MEMBERS PRESENT**

Todd Everts, Legislative Research Analyst

**AGENDA**

**Attachment 1**

**VISITORS' REGISTRATION**

**Attachment 2**

**I WELCOME AND INTRODUCTIONS**

**REP. TOM DELL** asked the Subcommittee members to identify themselves.

**DOUG HARDY** said that he manages the rural electric cooperative in Livingston, Montana. He is representing the Montana Electric Cooperatives.

**REP. JIM KEANE** represents House District (HD) 36 in Butte.

**REP. DELL** represents HD 19 in west Billings.

**SEN. WALT McNUTT** represents Senate District (SD) 50 in Sidney.

**SEN. ALVIN ELLIS, JR.**, represents SD 12, which is Carbon, Stillwater, and a portion of Sweetgrass counties.

**KATHY ROOS** is the community representative for the environment and conservation.

**MATT BRAINARD** is a commissioner for the Public Service Commission (PSC).

**DEB YOUNG** is from the Montana Power Company (MPC), and is here on behalf of PAT CORCORAN.

## **II REVIEW AND ADOPTION OF SUBCOMMITTEE WORK PLAN**

**MR. EVERTS** referred to the draft subcommittee work plan, **Attachment 3**. The work plan outlines the goals of the Subcommittee and sets out tasks to be accomplished, as well as a time line that needs to be achieved. This is a fairly strict statutory time line. The goals are set by the restructuring act itself. Page 2 of the work plan lists the statutory directives. One of those says that TAC, in coordination with the PSC, shall conduct a re-evaluation of the ongoing need of the Universal Systems Benefit (USB) programs. The determination will be based and focused on the existence of markets to provide any or all of the USB programs themselves. TAC has to make this recommendation by July 1, 2002. That recommendation will be forwarded to the next Legislature. The other statutory task is that TAC will monitor and evaluate USB and comparable funding levels in the region and make recommendations to the next Legislature to adjust those funding levels.

**REP. DELL** asked, in terms of the report on conservation and renewable USB programs, what will be the resources that **MR. EVERTS** will primarily rely on for that report. **MR. EVERTS** said that there will be a sense of that from the implementors panel discussion at this meeting. There will also be a sense of that from people who utilize that conservation and efficiency money. If there is anyone else that the Subcommittee would like to hear from on that he would be happy to get them in.

**MOTION/VOTE:** The motion was made to adopt of the Subcommittee work plan. Motion passed unanimously.

## **III A GENERAL PRIMER ON UNIVERSAL SYSTEMS BENEFITS PROGRAMS IN MONTANA**

**MR. EVERTS** referred to **Attachment 4**. USBP programs include low income programs, such as energy assistance and weatherization; cost effective conservation; research and development (R&D);

market transformation; irrigation energy conservation and efficiency; and renewables. There is a statutory requirement for TAC to make recommendations regarding the ongoing need for USB by July 2002.

The Governor's comprehensive regional review that was done in 1996 recommended that there be a 3% funding level for public purpose programs. During that time it was thought that a number of states would be going to competition. In 1997, a funding level was established for USB of 2.4% of 1995 electric utility revenue. It created USB programs, separated out large customers allowing them to self-direct USB activities. It also created a minimum level of 17% of the entire USB for low income. Cooperatives were allowed to pool their expenditures across the state and credit their expenditures against their USB obligations. Any unspent funds would flow into state accounts to be distributed by the Department of Public Health and Human Services (DPHHS) for low income or the Department of Environmental Quality (DEQ) for conservation and renewables. In 1999, the program was retooled. Most changes came from the TAC. The Department of Revenue (DOR) established rules to implement USB during that time. In 2001, TAC was involved in some further changes. The Legislature clarified that amortized and non-amortized power purchases could be used as credits against the USB charge. The Legislature added that 6% of the funding level be dedicated to irrigated agriculture conservation and efficiency measures, but limited the entities in which it applied.

In statute it is required that those program costs be recovered through a USB charge that is assessed at the meter for customers. The customers' distribution utility is required to collect those funds from the customer. The PSC sets rates for those utilities within its jurisdiction and the cooperatives set rates for themselves in terms of collection. It is a very complex funding mechanism. For example, the 1995 retail sales were \$100, the USBP funding level would be \$2.40 minus any credits. Any leftover money flows to the state account for distribution. The cooperatives are allowed a statewide pool for their credits. Large customers can self direct their own money and then take a credit against the \$2.40. If the overall funding is \$2.40, a minimum of 40 cents (17%) must be put aside for low-income programs. Irrigation would receive 14 cents (6%).

**REP. KEANE** asked how the percentages were decided. **MR. EVERTS** said that regarding the 17%, at the time that was established, there were a lot of numbers being tossed out on the overall funding level. There was also of give and take in establishing that funding level. **MS. YOUNG** said that her understanding of where the 17% came from is that work had been done in the Governor's Low Income Advisory Committee and there was an assessment as to the amount of need for the low income community in the state of Montana. Then it was looked at as to the revenues of all the energy utilities in the state of Montana. The electric industries share of that turned out to be about equal to 17% of the total USB funds collected. A further response was given that there was discussion on the Governor's Low Income Advisory Council. The low income portions of these programs were funded prior to the creation of USB and the restructuring of the electric industry. The 17% was a continuation of the past funding efforts.

#### **IV      IMPLEMENTERS OF THE UNIVERSAL SYSTEMS BENEFITS PROGRAMS IN MONTANA**

**MS. YOUNG, Montana Power Company (MPC)**, said that MPC's goal from the beginning has been to efficiently deliver the public purpose benefits to their customers. She referred to **Attachment 5**. The USB charge is separate from the customer's choice of supplier. MPC, as a distribution utility, collects the USB charge from all of their customers regardless of who they choose as a supplier. The legislative goal was to sustain the public purpose activities as competitive markets developed and to require that all utilities in the state of Montana have these programs. The PSC set the rates for the investor-owned utilities and each utility is a little bit different. The PSC set MPC's rates effective January 1, 1999, at a price that increased the customers' rates by \$7.6 million per year. The PSC also gave guidelines to MPC requiring them to allocate the funds, directing a minimum of 21% of the total USB funds collected to low income, to direct any unspent large customer funds to low income activities, and to establish an advisory committee. MPC had worked with an advisory committee prior to this through the least cost planning activities.

MPC built on a framework of existing conservation, low income programs, and existing infrastructure. Renewables was a category that was new to MPC. There is broad representation on the advisory committee that help MPC in reviewing MPC's USB activities. Large customers make up about 30% of the USB revenues. Because a large customer has the ability to self direct their USB funds, they do not have a low income requirement. Because of this MPC has redirected an addition \$281,000 to low income in the last 3 years, bringing the total percentage up to about 23%.

MPC provides a 15% discount on electric bills of all MPC customers who qualify for the Low Income Energy Assistance Program (LIEAP). These are separate dollars and programs, but they use the LIAP qualification as a way to identify low income customers. This discount is for the MPC bill on any MPC services, regardless of their heat source. They also fund a free weatherization program that is operated in partnership with the state of Montana that is implemented by the Human Resource Councils around the state. This program design allows for both the state and MPC customer dollars to be maximized and reach more MPC customers than they would otherwise be able to serve. They have streamlined the administrative process by using existing infrastructure. MPC funds Energy Share of Montana to provide energy assistance to MPC customers. The PSC directed MPC to put \$100,000 per year to low income renewable projects. Promotion and outreach is also funded to better identify the customers who meet the low income eligibility, but aren't currently being served. MPC has also funded a few individual projects on an occasional basis.

In the local conservation area, MPC has been offering home energy audits since 1978. They started offering a more aggressive energy audit in 1992. That program is operated for MPC by Xenergy, which is an international energy efficiency organization. They have a Montana operation based in Helena. Customers are very favorable and supportive of this program. MPC also offers a base load audit. This is done with a mailing energy audit. In the irrigation area, MPC sent out a request for

proposals in 2001 and selected the National Center of Appropriate Technology as the contractor for this. That program has been in the design stages and will be kicking off this irrigation season with about \$246,000 for 2001 and \$5,000 in 2002. They have about 5,000 irrigation accounts. They have found that a lot of the irrigation customers are not in their service territory, but there are a number of very large irrigators who are interested in participating in this program.

The Northwest Energy Efficiency Alliance was also formed out of the Governor's comprehensive regional review in 1996. The idea is that as four states working together, we can affect what happens in the market place more efficiently and more cost effectively than MPC by itself.

R&D dollars have gone to renewable projects, education, training, and research. In the renewable area, MPC has about 55 net metered solar or wind projects at customer facilities around the state. They are also working with the Black Feet Reservation on a project in conjunction with the Bonneville Power Administration (BPA) that will develop a large wind generation facility in Browning. MPC continues to solicit proposals for renewable projects.

MPC has 52 customers who have an individual load of 1,000 kilowatts or greater. The associated accounts brings the number up to more than 500 accounts who receive the USB rate of .09 cents per kilowatt hour and have the ability to self direct those dollars. The large customers make up 33% of the collected USB funds. Most have chosen to self direct their dollars to energy reduction. A few have chosen to self direct their dollars toward low income activities. The amount unspent by the large customers is about \$80,000 per year that has been reallocated. MPC doesn't pre-qualify large customer investments.

The administrative costs have been around 5% per year. This is low, but shows that the staff consists of about 5 MPC employees.

**MR. HARDY** asked if some of the aggregated customers were treated as the large customers. **MS. YOUNG** said that they are only the accounts associated with the large customer under their name and ownership that receive the large USB rate. It is not an aggregation like those who moved to choice. This is just the accounts of that individual customer. It is only the demand metered accounts of that customer.

**REP. DELL** asked if there is any research funding that goes into devices for allowing consumers to financially benefit from using off-peak electricity. **MS. YOUNG** said that some other utilities may use research and development funds differently than MPC. With the advice that MPC has received, they have very narrowly focused research and development dollars to activities that they could see or direct benefits right now in the state of Montana. The rules would allow for **REP. DELL's** scenario, but MPC programs have not funded that type of research and development activity. **REP. DELL** asked if the rules that MPC utilizes have some flexibility allowing them to do so in the future if they so chose. **MS. YOUNG** said that it is not a direction that they are currently going.

There are a number of organizations that would do that type of research, but they do not use USB dollars for funding that research.

**Tami Aberle, Montana Dakota Utilities (MDU)**, said that pursuant to the 1997 law and as it relates to MDU as a non-transitioning company, MDU implemented its electric USB charge on January 1, 2000. Their USB programs were ultimately filed with the PSC and the programs were approved by the PSC in June of 2000. MDU's annual requirement based on the 2.4% of 1995 revenues is \$676,000. According to the law, the large customers are at the .09 cents per kilowatt hour. All other customers, based on that required funding level, equates to a charge of .1566 cents per kilowatt hour. Large customer collections in 2000 and 2001 were around \$150,000. They have 6 customers that qualify under that part of the law. The total USB collections in the year 2000 were \$557,383. They implemented programs in the middle of the year. This left money that was unallocated and unspent at the end of 2000. Pursuant to the law, those monies were then submitted to the state for allocation. In 2001 the collections were some higher. The programs funding increased because it was for an entire year. The amount to be remitted to the state was approximately \$91,000.

The low income related programs represent the bulk of the expenditures. MDU serves approximately 23,000 customers located in communities within eastern Montana. The goal has been to get the money back to those customers. The one program that is administered internally is the low income discount. MDU provides a discount on a sliding scale basis based on the percentage of poverty and age to customers qualifying for a low income energy assistance. That discount ranges from 5% to 25%. MDU also provides bill assistance through Energy Share of Montana. MDU provides weatherization and energy audits through Action for Eastern Montana. Through Energy Share of Montana, MDU has funded a furnace and water heater repair and replacement program. This is directed to safety related repairs and replacements. MDU has relied on the infrastructure that was in place prior to the USB programs.

The other part of the Energy Share program is bill assistance and they provide money for the endowment fund, which looks toward the future in ensuring that we have low income energy assistance available into the future. Other programs include a commercial lighting program that provides rebates for lighting systems retrofits. MDU is also partnering with Montana State University (MSU) Billings in the development of a fuel cell project, which is looking at a remote installation in 2002 and a residential unit installation in 2003. MDU is currently in discussion with a third party vendor for a residential and commercial energy audit program that would be available to other non-low income customers.

**REP. DELL** asked about the fuel cell project. **Ms. Aberle** said that MDU, along with MSU, is looking at several beta units. In terms of a unit that is available at a residential level, there is a sense that data is needed on a remote location that wouldn't affect a customer that is using energy for daily life. This is something that they would work with a coal bed methane (CBM) producer or some other type of well. There are some potential candidates in mind. In 2003, as these units come to a better stage of implementation, they hope to move into a residential site.

**SEN. ELLIS** asked if those units are fueled only by hydrogen or by hydro carbons. **Ms. Aberle** said that they are looking at a number of different units, including both types of units.

**Gary Weins, Montana Electric Cooperatives' Association (MECA)**, referred to **Attachment 6**. There are 26 electric distribution cooperatives, serving in all 56 counties in Montana. The cooperatives are customer owned, not-for-profit utilities, which are locally run by the cooperative board of directors, elected by the customers of each local cooperative. They average about 3,000 customers per cooperative. For USB purposes, the cooperatives are treated as one statewide utility. The pooling of the 26 cooperatives' USB obligation credits was sought in 1997 by the cooperatives to protect their customer rates, particularly rates paid by customers of the smaller cooperatives that had historically not had major USB expenditure. The total revenues of the cooperatives are combined to determine the cooperatives' combined USB expenditure obligation. In turn, the cooperatives total USB credits are combined to meet their combined spending obligation. So far the pool has produced a surplus of USB expenditures that have protected the rates of the cooperatives. In submitting the pool expenditure reports, they are itemized according to the USB eligible programs listed in the rules of the Department of Revenue. The reports are submitted by MECA as per state law. The pool is overseen by a board that is comprised of 4 cooperative managers representing the 4 different cooperative regions in the association.

The total obligation is \$3.8 million. For low income, the cooperatives are required to spend \$646,883, which is based on 17% of 2.4. For a full year, they are required to expend \$85,600 for irrigation. The total USB expenditures in 1999 were 2.9% of revenues. The low income was 19.9%. In 2000, the total expenditures were 1% and the low income was 18.94%. In 2001, the total expenditures were 2.95%; the low income was 19.1%; irrigation conservation was 9%. Most of the expenditures are under energy conservation, closely followed by low income assistance programs, and third would be renewable resource projects. A good number of the cooperatives offer energy audits to their customers. In 2000, the cooperatives spent over \$40,000 on energy audits for customers who request them. Many cooperatives offer water heater programs, grant or low interest loans to pay for installation of ground source heating/cooling pumps used for energy efficiency savings, energy efficiency education, and super good sense programs. One cooperative provides solar pumps to ranchers who are pumping water at stock wells.

No USB dollars have ever reverted to the state. Administrative costs varies with each cooperative. A typical cooperative is expending from \$1 to \$3 per month on administration. The expenditures can be documented. Expenditures are tracked on a monthly basis through accounting numbers assigned to various USB eligible expenditures. The accounting numbers are uniform.

**SEN. ELLIS** asked why the USB effort peaked in 2000 at 150% of what is mandated.

**Mr. Weins** said that because a good portion of the credits are through the wholesale power purchases, it reflects the fluctuation in the consumption of electricity. **MR. HARDY** said that if you have X amount of cents per kilowatt hour that are in the conservation, if you sell more kilowatt hours there is

more credited. If sales are high, there will be more collected.

**SEN. ELLIS** asked if it would still be the same percentage. **MR. HARDY** said that the percentage would stay the same, but they are going towards a funding of the fixed amount of 1995 sales. The percent that is funded varies against the 1995 base year. **SEN. ELLIS** asked if heat pumps only get put in on new units, or is it efficient to install a heat pump on an existing facility. **MR. HARDY** said that the pumps can be put in for any type of installation. The viability of retrofitting a structure depends on the specifics of the structure.

**MR. BRAINARD** asked about the mechanism allowing the cooperatives to shut off a water heater. **MR. HARDY** said that he is not aware of any that have been switched. The provision allowing that has been kept because the cooperatives feel that it is important depending on the power supply. It would most likely be an automated one that could be switched off by a signal through the power lines or a radio wave. Timers have not traditionally been used. **MR. BRAINARD** asked about the extent of the ability to dispatch messages on the transmission lines. **MR. HARDY** said that technology is there, but it is a question of cost.

**Don Quander, Montana Large Customer Group**, said that most of the information that the large customers use comes from MPC's report. It is important that all customers on the utility system pay the USB charge. That is irrespective of who the customer is. Large customers have the ability to self direct these funds. To the extent that large customers identify qualifying programs or expenditures, such as energy efficiency programs or contributions to qualifying low energy income assistance programs; they can then claim a credit from the utility not to exceed the amount that they have paid into USB charges. It is the responsibility of the customers claiming those credits to document the qualifying nature of those credits. There is an annual reporting of those expenditures.

The 2.4% figure has a rational basis. In 1997, when legislation was being put together, it was recognized that as rates were unbundled there were various programs and charges for low income energy assistance, conservation, and efficiency being operated. There was an issue about whether those would be sustained once rates were unbundled. Those programs were operating at about 2.4% of the 1995 revenues. The legislature didn't want to propose an increase, but they wanted to maintain that rate. The cap for contributions of large customers tied to that period of time as well. The .9 mills per kilowatt hour is representative of what was calculated to be the large customer payments under the then existing programs imbedded in rates.

The bulk of the funds from large customers has been used for energy efficiency programs at the facilities of the customers. Those have varied a great deal depending on the size of the customer and the nature of the program. A lot of it has to do with more efficient motors. The amount contributed to low income energy assistance has not been trivial. To date the amount to low income is approximately \$500,000. Energy Share has been the primary recipient of industrial contributions to low income energy assistance. The program said that the large customers are going to have to pay the money anyway, they might as well use it. This idea led to many efficiency changes.



Most of the members in his group started off being very skeptical of the USB program. There was a general sense that other programs administered by the state were a more appropriate way to obtain the funding for low income assistance. Many felt that energy efficiency was a market place function. As long as the costs didn't increase, the large customers were prepared to pay for it. The attitude has changed over the last several years. The large customers have found that they have been able to make very good use of this program for funding energy efficiency. The ability to distribute those funds has garnered support from many of the large customers. Most of the money has gone into the statewide endowment fund that can be used across the state, but some of the companies have been able to ensure that monies were expended in the local area of the company. The overall feeling of the large customer group is that this program has been modest but reasonable and has worked well for them. They are generally supportive of the program in both the low income assistance and the energy efficiency.

**REP. DELL** asked what the sense was regarding whether the USB program was flexible enough to work well with the energy crisis. **Mr. Quander** said that the large customers' reaction hasn't reached that level of sophistication in terms of analyzing the program.

**Mr. Wiens** said that the cooperatives like the pooling arrangement that they have because it allows them the flexibility they need to better target the USB dollars. They do have some concerns about being tied to a specific percent on any USB program category because it limits the implementation of the most cost efficient use of USB dollars.

**Ms. Aberle** said that MDU didn't unbundle rates and so they are not a transitioning utility. Their customers, in the past, have not asked MDU to fund such programs. MDU had not requested the PSC's authority to reflect in rates costs for low income related programs and energy conservation programs. The result is that the 2.4% was an increase in cost to the customers. Though worthwhile programs, there are other funding mechanisms in place for the low income programs. MDU customers were not the ones to fund that. MDU would like to ensure that the benefits are coordinated between state and federal monies.

**MS. YOUNG** said that while the funding level associated with public purpose programs was consistent with what it had been prior to 1999, MPC recovered those costs differently. They moved from amortizing those costs to expensing those costs. There was a rate increase because the manner in which those programs were funded was changed. Overall the USB programs have worked hard through the years to achieve a balance between the various needs. MPC would encourage that where the right balance is, is looked at. There is always more that could be done.

**Mr. Quander** said that his only suggestion would be that whatever decision about funding the program the Legislature makes, the move to unbundle the rates to a line item for USB was a very positive element. To the extent that customers are being asked to pay these charges to support these programs, it is much better that it be explicit and people understand what they are paying for.

**MS. YOUNG** said that MPC shows USB charges as a separate line item. MPC has unbundled the bills as required by SB 390.

**REP. DELL** asked if, looking at where we are with the right balance, we need to address specific local needs. How would the panel recommend that be moved forward to make the USB programs more flexible to address the specific needs of the customers? **Mr. Weins** said that his association had not discussed possible solutions to that.

**MR. BRAINARD** said that 6% for irrigation is too much in some areas, but not enough in others.

**REP. DELL** said that is a reality. He is curious how that could be approached.

**Mr. Quander** said that could be addressed by taking that 6% and instead of having it expended by individual cooperatives, that money could be directed to the state fund and assigned out of that fund by need, based on the level of need where it occurred, as opposed to being confined to individual cooperative districts.

**Mr. Weins** said that the cooperatives appreciate and need the ability to locally decide where the dollars go. If they are shipping money to the state, the needs will not get met to as great an extent.

**MS. YOUNG** said that the cooperative pooling allows that the cumulative effect of the cooperatives in the state of Montana must achieve the funding level of 6% of Glacier and Flathead Cooperatives. **Mr. Weins** said that is correct. The cooperatives are combining the obligation of Glacier and Flathead. The way it works is that the cooperatives are going to look to Glacier and Flathead to meet that obligation generally.

**SEN. ELLIS** asked if this issue is specific to irrigation allocation, or was that an example.

**Mr. Weins** said that they would like more flexibility throughout the program. The irrigation is just one example. **MR. HARDY** said that the flexibility is there right now. That flexibility is important because of various needs throughout the state. Making sure that what works in western Montana not be mandated in eastern Montana is important from the cooperative perspective. **SEN. ELLIS** asked if they did have that flexibility even though they have to allocate 17% for low income. **MR. HARDY** said that is the one area that there isn't that flexibility. The irrigation will also be an area without flexibility.

**MS. YOUNG** said that the percentages as they are now are workable, but putting percentages across the board would not be workable. **MR. HARDY** said that it would create problems and cause costs shifts. It would increase costs for some people. **MS. YOUNG** said that, with regard to MPC, the revenues that are collected fluctuate on an annual basis. That makes implementation challenging. To fix percentages across all programs would make administration of the programs very difficult for them. Keeping flexibility brings some benefit.

## **V STATE GOVERNMENT'S REGULATORY ROLE IN UNIVERSAL SYSTEMS BENEFITS PROGRAMS**

**Russ Traskey, Department of Revenue (DOR)**, said that the public utilities, statewide cooperative utility office and large customers claiming USB credit are required to file a USB annual report with the DOR. The USB annual reports provide a snapshot of the annual USB charges collected, the USB programs and activities, and the payments made to the statewide funds. The reports that are filed by the large customers provide a description of the USB programs and activities that were implemented and the amounts of USB funds that have been self directed.

According to the statutes and rules, the DOR's duties include adopting administrative rules, establishing USB fund accounts, issuing protective orders, publishing a notice acknowledging receipt of the annual reports, and making the USB annual reports available for public inspection. Upon receiving a challenge from an interested party, DOR shall conduct an informal review of a USB credit. The claimed credits are presumed to be acceptable unless proven otherwise. The burden of proving otherwise lies with the challenging party. If the DOR determines that the challenged credit qualifies, it shall dismiss the challenge and provide an explanation of the dismissal. If the DOR determines that the challenged credit is not likely to qualify as a USB qualifying program or activity, the challenge is forwarded to the department's office of dispute and resolution for a formal review. If the department's office of dispute and resolution determines that the credit claimed does not qualify as a USB program or activity, the credit claimant is entitled to a judicial review of the decision.

**MR. LEUWER** asked if there had ever been a challenge. **Mr. Traskey** said that there had been one challenge over the 3 years that the program has existed. The challenge was dismissed. The challenge involved whether the cooperatives may receive credit for conservation investments made through the purchase of power. MCA 69-8-402 (2)(b) allows that to occur. **MR. LEUWER** asked, other than the challenge mechanism, defining the credits is an on your honor based on the reporting or claiming of the credit. **Mr. Traskey** said that they are assumed to qualify unless the credit is challenged.

**MR. LEUWER** said that the honor-system has worked really well in Montana. Making it the honor-system provides some degree of flexibility.

**Will Rosquist, PSC**, said that the PSC's role is strictly with respect to the implementation of the USB program by regulated public utilities, such as MPC and MDU. The PSC's role is set forth in the restructuring laws. The law requires that the PSC establish the USB charge for regulated public utilities based on the funding criteria in the law, which is 2.4% of the utility's 1995 retail revenues. The rate is fixed, so the amount of revenues collected tends to fluctuate with the amount of loads on the utility system.

A restructuring utility is required to describe how it will provide for USB programs as part of a transition plan that is filed with the PSC under the restructuring laws. The information that is to be filed

with the transition plan includes a description of the methodologies used by the utility to determine the allocation or contribution to each program category such as energy efficiency, market transformation, renewables, and low income. The PSC is then authorized to approve, modify, or deny components of a restructuring utility's transitioning plan using traditional, contested case procedures, the procedures that the PSC generally uses to process utility rate cases. Then the PSC is authorized to enforce utility obligations under a PSC final order. MDU was exempted from restructuring with SB 390, and has since gotten an extension for the exemption. MDU was not exempt from the requirement to establish a USB charge. Utilities are also required to submit annual reports to the PSC on USB activities.

Utilities are not required to implement programs. They can choose to send all of the revenues collected by the USB charge to the state for allocation. If a utility does decide that it is going to operate programs itself, the PSC has determined that the PSC has a further role to play in ensuring that the funds are put to the best use and that public involvement in the decision making process is preserved. This is what has been done with MPC and MDU, who have both decided to operate their own programs.

In the context of MPC's transitioning plan, there was substantial involvement by various public interest organizations in terms of submitting testimony and comments to the PSC on how MPC should allocate the funds among the various qualifying categories. The PSC issued an order setting forth an initial allocation and directed MPC to pursue a proposal of their own to set up an advisory committee to address the ongoing implementation issues surrounding USB programs. The PSC monitors that committee. MPC remains accountable to the PSC.

MDU's case attracted less involvement. Their funding obligation is relatively small, roughly 8% of what MPC's obligation is. The PSC did participate in that process. There was no hearing. The PSC looked at testimony and the parties agreed that no hearing was necessary. The PSC adopted the MDU proposal with some slight modifications. The PSC didn't have a strong administrative record on which to base the decision directing MDU to set up an advisory committee. However, since MDU is not a restructuring utility, they continue to provide the PSC with long range integrated resource plans through which the PSC monitors the company's activities related to energy efficiency, renewables, R&D, and low income discounts.

**SEN. ELLIS** asked why when SB 390 was instituted, MDU and MPC came to the table with different levels of effort for the programs covered by USB credits. **Mr. Rosquist** said that it had to do with the past activities of the companies. MPC had previously been more active in terms of adopting some demand-side management programs. MDU didn't have extensive programs in place prior to SB 390. The companies are also in different situations in terms of service areas. **SEN. ELLIS** asked if it was concessions that were forced on MPC as a result of permitting the Colstrip units that resulted in some of these charges. **Mr. Rosquist** said that a function of the percentage in SB 390 as applied to the retail revenues of each utility lead to a big part of the difference. Looking at how the 2.4% figure came about, he is not sure that he could say that all of MPC's demand-side management programs were

strictly a result of concessions that they made as part of the settlement. Some of it was MPC wanting to offer programs to their customers.

**John Alke, MDU**, said that he agreed that a huge driver of the difference between what MPC did and what MDU did is where the utility was located. MPC is predominantly the Columbia River Basin and subject to the jurisdiction of the Northwest Power Planning Council and has access to EPA power. For over 20 years in the Pacific Northwest there has been emphasis for conservation. This emphasis has never existed in the MDU service territory. There is no federal power available in the MDU service territory. Also in the Pacific Northwest there is a significant penetration of customers who heat their homes electrically, which is an obvious candidate for demand-side management. This is not true in the MDU territory. MDU didn't have the programs because the states in which it operates had no interest, customers had no interest, and there is no benefit in terms of maintaining eligibility for federal power.

## **VI AN OVERVIEW OF LOW INCOME ENERGY ASSISTANCE AND WEATHERIZATION UNIVERSAL SYSTEM BENEFITS PROGRAMS IN MONTANA**

**Jim Nolan, Department of Public Health and Human Services (DPHHS)**, referred to **EXHIBIT 7**. There is a minimum of 17% of the USB funds that goes to low income. The actual amount is closer to 18%. DPHHS operates the low income energy assistance program (LIEAP) program and the weatherization program. LIEAP is a primarily federally funded program to help low income people meet a portion of their winter heating costs. The program has been in operation for over 20 years and is subject to the annual appropriation process that Congress goes through. The state of Montana operates the program statewide with the exception of 6 of the state's tribal reservations. LIEAP is operated on the Crow Reservation. The other 6 tribes run their programs directly from Washington. DPHHS administers LIEAP through the 10 Human Resource Development Councils (HRDC) and one area agency on aging in north central Montana. LIEAP serves a very high number of working poor. Of the 16,000 households that the program served last year, 7,700 were salaried working families. The eligibility is 150% of poverty as the maximum. That is \$26,475 for a family of 4. That can be adjusted by \$4,000 per family member up or down. DPHHS takes into account the income of the family, the size of the home, the type of fuel being used, and the geographic area of the state. Last year the average payment was \$444 for the winter heating season. This year, the federal funds received are lower than what was received last year. Of those served last year, more than 4,000 were occupied by senior citizens, 5,700 were occupied by disabled, and 98 contained a female head of household. This year they are anticipating a case load growth to about 21,000 for LIEAP.

In addition to this, households can also get help from MPC, MDU, and Great Falls Gas in the form of a utility bill discount. Mr. Nolan said that this is one of the nicest things to come out of the USB program.

HRDC's use the same application as LIEAP and weatherization. If a home is selected for weatherization and that weatherization is refused, that home will not receive assistance from LIEAP. The homeowners need to work with the program to obtain energy efficiency. Because the program is contracted out to the HRDC's, DPHHS has less than 2 full-time employees (FTE) that administer the program. A lot of the responsibility of administering and designing the programs falls to the HRDC's.

Federal funding comes from the DPHHS. Last year's program was funded at more than \$13.5 million. This year it is funded at \$10.4 million. The president is recommending an 18% cut in the budget from LIEAP and the upcoming winter heating season. This program is subject to the changing political scenario in Washington. Every year is a new ball game in terms of what LIEAP will be funded for, if at all. There have been years where LIEAP was zeroed out. USB is an extremely important compliment to whatever LIEAP help is received from the federal government.

The other program that DPHHS has is the weatherization program, which is designed to provide cost effective energy conservation measures to low income households. The program has evolved significantly over the years. The program uses a federally mandated audit program. MSU does the training for the program staff on a regular basis to keep up-to-date on the latest weatherization techniques. The most common things done are heating system tuneups, air infiltration reduction, and attic and wall insulation. This is a cost effective program. This year it will serve about 1,900 homes. 346 of those will be occupied by senior citizens and disabled. 864 homes will have children. The HRDC's and 2 tribes are used to do the program. The program is primarily funded by the Department of Energy; some additional funding comes from the DPHHS, Bonneville Power Administration (BPA), MPC, and MDU.

**MR. HARDY** asked about the low income assistance funding for cooperatives. **Mr. Nolan** said that \$300,00 was identified for energy bills. There are a number of categories that they can claim credits against, but the easiest one is bill assistance.

**REP. DELL** asked why the averages are lower for 2002 than 2001. **Mr. Nolan** said that it is a case of declining federal dollars. The grant that DPHHS received last year was \$13.5 million; the grant this year was \$10.4 million. The president's request would cut that even further.

**REP. DELL** asked if DPHHS anticipates serving 21,500 households this year. **Mr. Nolan** said that the state program anticipates that, but the Native Americans also receive help from USB; that would add about 4,000 households.

**Rachel Hoverman, Energy Share of Montana**, Referred to **Attachment 7**. Energy Share is a private nonprofit organization that was started in 1982 by a group of HRDC's and utilities that saw the need to help Montanans faced with energy emergencies meet their needs. Since that time, Energy Share has helped nearly 17,000 families with \$4.7 million. Energy Share compliments the LIEAP program where they try to help people that either don't qualify for LIEAP or just need a little more help than what LIEAP can give them. In reviewing the applications that they get, Energy Share looks at the

individual circumstances surrounding the applications. Many of the families that they help include people who may have been laid off their job, or are seasonal employees, who would normally be able to make it through the winter, but something happened and they need a little help to get through that time in their lives. Last year Energy Share helped 2,241 families with \$733,000. The money goes directly to the clients' accounts with the utility company, cooperative, or fuel vender. Energy Share helps people no matter what their heat source is, as long as the funds are available.

Energy Share also gets funding from Energy West and MDU to operate furnace and water heater safety and efficiency programs. Those programs run in Great Falls, Billings, and eastern Montana. Last year Energy Share helped 120 families with about \$65,000 in those three areas. 8% went for furnace safety and 92% went for bill assistance.

Energy Share has a permanent endowment.

For supplemental information see **Attachment 8**.

**REP. DELL** asked if there are any changes in the way that Energy Share is being funded.

**Ms. Hoverman** said that the biggest change would be the lack of stripper well funding beginning this fiscal year. Prior to that, Energy Share's funding for bill assistance had grown steadily.

**Billie Krenzler, HRDC 7**, referred to **Attachment 7**. 18% of the USB funding in Montana went for low income needs. HRDC contracts with the state of Montana and Energy Share to operate the programs. HRDC's are the ones that actually work with the people that apply for the programs. **Attachment 9** is the worksheet that they use to determine eligibility. If the person is eligible for LIEAP, they are automatically eligible for the weatherization program. Once eligibility is determined, the information is put into the computer system and the state runs a priority list of the homes determining whose homes will be weatherized first. This is done on the ratio of fuel costs versus income.

There are trained energy auditors that work for all of the HRDC's. The auditor goes to the home once the priority list comes out and interviews the client about problems in the home. The auditor then does a walk-through of the home to see the building components and look for specific problems. The information that is gathered is entered into a computer at the office to find out whether the household meets the 1.8 ratio, where there needs to be a savings pay back for them to be eligible for weatherization. The computer determines which is viable. Once this is complete, a work order is issued and the work is completed on the home. There will be a blower door test and the home will be inspected by a trained inspector after the work is done to ensure that the work was done properly.

**Dennis Osello, Energy Division, HRDC 12**, said that with the blower door test there are lines put throughout the house in different areas and then they start the blower door up. This determines where the major leaks in the house are. In conjunction with this they use an infrared scanner to actually scan that areas that are the worst places in the home, so that those areas can be addressed.

**Ms. Krenzler** showed some pictures of the homes that have been weatherized. Her agency covers Big Horn, Carbon, Stillwater, Sweetgrass, and Yellowstone. They also do the Crow Indian Reservation. Her HRDC does 27% mobile homes, 23% multi-family, 50% single family dwellings. Insulation is a major weatherization tool that they use. Many of the things that they fix through this program are for safety measures. They also fix a lot of broken windows. Without the monies that they receive from USB they could not do a lot of the repairs that they are now doing. Administrative costs for the program are very low. Almost all of the money goes towards weatherizing and repairing of these homes.

**REP. DELL** asked about the waiting list for the weatherization program. **Ms. Krenzler** said that they are working about 1 year behind. People who qualify this year won't be weatherized until next year. Then it comes out on the priority list. They will do the homes as they are prioritized until the money is gone. **REP. DELL** asked if the waiting list had been getting any shorter with the warmer than normal temperatures. **Ms. Krenzler** said that there is no such thing as a short list.

The question was asked if the weatherization program did about 2,000 homes per year total, and 20% of that money comes from USB. **Ms. Krenzler** said that they try to get to all of their clients. They also give out energy calendars that will give their clients tips on ways that they can save energy in their home with some simple things.

**MR. BRAINARD** asked for the breakdowns for the recipients of these programs in regards to renters and the dwellings. Do the benefits stay with the property? Is there any follow-up down the road to see if the changes are still there? **Ms. Krenzler** said that there is not a follow-up. The landlord does sign an agreement that he will continue to try to rent that home to low income people. Once the work has been done and inspected, unless there are problems, they do not go back out to that home.

**MS. YOUNG** asked for the mix of customers that are served in terms of the heating source. **Ms. Krenzler** said that in her area 75% of those served last year were natural gas, 13% were electricity, 13% propane, and 1% wood and coal. These are not statewide figures. **Mr. Nolan** said that in last year's LIEAP it was 68% natural gas and 18% electric.

**REP. DELL** asked how the people who are making the repairs deal with a situation where there are a lot of things wrong as far as safety. **Ms. Krenzler** said that there are health and safety dollars in the contract which allows them to do some specific things in that area. All of the people that work on the furnaces, hot water heaters, and others are licensed professionals who are required to carry a certain amount of insurance before they can do the work.

**MR. HARDY** asked what percentage of the audits find things that could be corrected with different management. **Mr. Nolan** said that they try to address the educational aspects with the client from the time they begin until the job is finished. They also have a quality control person that follows up with that later. They are now in the process of going back the following year and doing another client interview



to see how they are doing. **MR. HARDY** asked for a percentage of the savings that are projected on average are due to education. **Mr. Nolan** said that the nation figure is 12%.

**REP. KEANE** asked for the amount of savings on the conservation component of this.

**Ms. Krenzler** said that is part of the computer input. **Mr. Nolan** said that the 1.8 to 1 ratio is based on the fact that every dollar they spend on a measure has to save \$1.80 on energy costs over the life of the residence installed. **Ms. Krenzler** said that if it is less than that, the work isn't done, unless it is under health and safety. **REP. KEANE** asked if that amount is tracked.

**Mr. Nolan** said that it is built into the formula that the audit operates on. There are some assumptions that the auditors make. **REP. KEANE** said that there should be a number where the savings becomes obvious and will extend on for a period of time. **Mr. Nolan** said that is the ratio of 1.8 to 1.

**MR. HARDY** asked if the client refuses weatherization are they denied any fuel bill assistance. **Mr. Nolan** said that was correct. **MR. HARDY** asked if 100% of those with the fuel bill assistance are offered the audit. **Mr. Nolan** said that only those who are selected for weatherization are offered the audit. Of the more than 20,000 that are on LIEAP, 1,900 homes will be weatherized this year. **Ms. Krenzler** said that when the eligibility is determined, they record type of fuel, size of the home, number of bedrooms, etc. The HRDC can then use that information to check what the households usage has been for the past year.

**REP. DELL** asked why programable thermostats are not included on the list. **Mr. Nolan** said that they have put those in in the past, but they have found that it is very hard to teach the customers how to operate it. When there is a problem, MPC is the first called to come and reprogram it.

**MR. HARDY** asked, of the audits and weatherizations that are done, is there a sense of how many people want to take everything and implement it. **Mr. Nolan** said that about 50 to 55% really want to implement the recommendations. **MR. HARDY** asked if the educational things would be similar. **Mr. Nolan** said that the customer would take certain portions of what they are showed. They will use those which are simplest to use.

## **VII AN OVERVIEW OF CONSERVATION, MARKET TRANSFORMATION, RENEWABLES, AND RESEARCH AND DEVELOPMENT UNIVERSAL SYSTEMS BENEFITS PROGRAMS IN MONTANA**

### ***• Northwest Energy Alliance***

**Margie Gardner, Northwest Energy Efficiency Alliance (NEEA)**, referred to **Attachment 10**. Montana and some of the leadership and momentum has increased over the past 5 years. The Alliance has over 20 projects. They often work with manufacturers, retailers, and service providers to encourage them to bring more energy efficient projects into the stores. The NEEA then helps market those products to consumers through cooperative advertising. One example of this is the Energy Star

logo. The Energy Star logo is becoming very prominent in all sorts of different residential appliances that use electricity. When Energy Star started in the fluorescent lighting market 5 years ago, there were almost no qualifying products in the Montana market. In the last year they have sold over 420,000 qualifying bulbs in Montana. There are over a dozen manufacturers who now produce them and 90 retailers in Montana that carry these products. The 420,000 bulbs is the equivalent of consumers saving about \$1.9 million per year.

Another Energy Star product that the Alliance helped sponsor is a front-loading washing machine. This has been significantly promoted since 1997 through the Energy Star home products program. 3,700 units have been sold in Montana, resulting in \$85,000 of energy savings. There are 75 retailers participating in the Energy Star home products program in Montana. These products save other resources in addition to electricity. The Alliance works with the retailer to promote these products and get more people into the store. There have been 1,600 Energy Star dishwashers and 2,400 Energy Star refrigerators sold in Montana.

**Bill Allen, Allen's Superstore, Helena**, said that his experiences with Energy Star goes back to the late 1990's when the Maytag company came out with a front-load washing machine. They were a bit leery of this product when it first came out. It is now one of the most popular machines that they sell. Energy Star products give the customers an opportunity to save some money. They are currently planning a television commercial in conjunction with Energy Star to invite the consumer to come in and visit with the employees at his store about how the customer can buy appliances that will save them money over the lifetime of the appliance. The Energy Star program is a good deal for the retailer and the customer. He presented brochures, **Attachments 11 and 12**.

**MS. YOUNG** asked about consumer awareness of Energy Star. **Mr. Allen** said that it is still in the early stages. At the moment they are just using the point of sale display material. In the future it will be working its way into other advertising.

**MR. LEUWER** asked if the consumers care about it. **Mr. Allen** said that if they don't they certainly should.

The question was asked if they customers are interested when they are told about it. **Mr. Allen** said that it seems that way. One benefit of having the Energy Star logo is that it is something that the manufacturer didn't put on the machine. It is something that the consumer can take with a higher degree of believability.

**REP. DELL** asked if they are now an active participant in the program. **Mr. Allen** said that they are. **REP. DELL** asked if the prices have come down a bit for these products. **Mr. Allen** said that it has. The manufacturers have become more aggressive in delivering less expensive products to the market. **REP. DELL** said the price of these products is higher, but it seems that they are getting more reasonable in terms of the cost.

**Ms. Gardner** said that the light bulb costs are coming down. She presented a brochure from Lowe's that was done without any co-funding from NEEA, **Attachment 13**.

**Ms. Gardner** said that NEEA also supports new technologies in the industrial arena as well. They will test and demonstrate innovative technologies in the industrial arena. They will then provide support to get that information out to industrial customers. They have projects in the industrial arena going throughout the state.

By pooling funds from all the utilities across the state, it makes it possible to invest in new ideas that are coming on the market in a way that an individual utility might not be able to do. They are pooling both the risk and the benefits.

Another area of emphasis has been training and information services on energy efficiency. An example would be building operator certification, to help building operators know how to make work spaces comfortable and efficient. There have been 23 professionals who represent a savings of 4 million kilowatt hours per year. Another example of an educational program is the day lighting consulting. This is offered through the lighting design lab, which is a central facility in Seattle that sends experts out to help train architects and engineers on how to build a space to use the daylight.

**Tom Javins, University of Montana (U of M)**, said that he administers the USB program at the University. They are working in cooperation with NEEA on a research and demonstration project on recommissioning buildings. In this they look at if there are energy savings that may be obtained. At the Missoula campus there is about 3 million square feet of building space. They have commissioned about 29% of that square footage. They have found that there are significant energy savings. The building commissioning is a tool that can be used to document how a building is supposed to work, identify the things that need to be looked at on a regular basis, and offers a tremendous payback.

**Ms. Gardner** said that the Northwest Power Planning Council (NPPC) has estimated that about 1,700 or more average megawatts that have been saved cost effectively in this region over the last two decades. NPPC also estimates that there is still another 2,400 megawatts that it is cost effective to do. That is equivalent to 4 BPA dams.

**MR. HARDY** asked if U of M didn't have a budget to invest in the recommissioning without USB funding. **Mr. Javins** said that is correct. He uses the USB money wherever he can.

**Ms. Garder** said that they are hoping to use the U of M buildings as case studies to take else where.

• *National Center for Appropriate Technology*

**Kathy Hadley, National Center for Appropriate Technology (NCAT)**, referred to **Attachemtn 14**. NCAT is a national nonprofit organization located in Butte, Montana. Their mission is to help people solve problems in the fields of energy, agriculture, housing, and communities through the

application of Appropriate Technologies. NCAT has been doing this for almost 25 year. They have a staff of 70 people. They focus in 3 program areas: sustainable energy, sustainable communities, and sustainable agriculture. Most of the services that NCAT provides are educational or technical assistance.

In the early years, NCAT focused on solar or weatherization projects to lower the energy costs for low income households. They helped people design and build greenhouses and community gardens. NCAT provided grants to small communities around the country to help improve the quality of life for the community residents. Today NCAT works in the area of public housing. They try to help managers of public housing units find ways to save energy and water in order to save money and make the residents more comfortable. NCAT works to assist states, tribes, and local community organizations stretch low income energy funds to assist low income people with utility costs. Locally, NCAT works in the Jefferson, Boulder, and Big Hole Rivers working with watershed groups and individual ranchers who are interested in adopting energy and water efficient irrigation technologies. NCAT does this to help those people reduce their utility bills related to irrigation and because of the increased pressure to use rivers in Montana and increase in-stream flows.

The largest part of NCAT's sustainable energy is focused on renewable energy. NCAT has received a number of renewable energy grants from MPC's USB programs. They have used these grants to develop net metered solar and wind programs for customers of MPC. NCAT has developed pilot demonstration programs with individuals and organizations that are geographically dispersed over the MPC service area. To date, NCAT has completed solar projects in 17 middle and high schools, and developed curriculums for the teachers to use to help students understand solar energy technologies. NCAT has completed 6 stock watering well projects with Montana farmers and ranchers. NCAT has completed more than 40 grid connected residential solar systems, and 7 low income solar systems in Montana. NCAT has also completed 10 net metered wind energy systems in residential and farm applications in Montana. Except for the schools and low income, all project participants were required to share in the cost of the projects. This varied from 1/3 of the cost to 1/2. NCAT also developed a green power web site.

It has been NCAT's experience that people across the state are very interested in renewable energy technologies. Solar electric and thermal systems are mature and proven technologies that are already working across Montana. System costs have been declining since the 1970's. These systems are quiet, maintenance free, and cost effective. There is a lot of enthusiasm for developing wind energy across the state. Montana is 5<sup>th</sup> in the nation for wind resources. There is enough wind in Montana to supply 15% of the total 1990 electric consumption of the 48 contiguous states. In Montana, wind systems are being developed on a range of scales from very large commercial systems to very small residential systems. Farmers and ranchers are keenly interested in wind because it is a way to add value to their agriculture operations.

Continued support for renewable resources is important for Montana. USB support is important.

These resources are clean and easily available. They offer Montana and its people a clear path for rural economic development opportunities, and for jobs. Renewables offer self sufficiency. It gives increased homeland security.

**Jim Tunlinson, rancher**, said that he put in a well that was the only source of water and was quite a way from any surface water. They had trouble getting the cattle to use the area near the well. His ranch was then approved to get involved with the solar project. They put a solar powered pump in. There were some problems with the pump the first year, but once they got the bugs worked out it is working very well. To begin with they had a portable electric generator and a submersible pump that ran on gas. With the solar set up, it is almost maintenance free. He has found that an increase in water storage is necessary to offset cloudy days. There are a lot of places where this technology would be useful to many ranchers in his area.

**SEN. ELLIS** asked for the life of the equipment. **Vicki Lynn, NCAT**, said that the solar panels typically have a warrantee of 20 to 25 years. The pumps are warrantied for 1 to 2 years, but the life of the pump is much more than that. Different pumps have different life times. Many can be repaired inexpensively and easily when they wear out. **SEN. ELLIS** said that he had been told that the solar panels didn't last very long. Has the technology changed in the last 5 years?

**Ms. Lynn** said that the quality of the solar panels has improved considerably. She felt that even 10 years ago solar panels had a pretty good life. **John Walden, NCAT**, has a solar panel that is about 25 years old and is still performing at about 80% of its peak production. **SEN. ELLIS** asked if the cost is comparable to what would be expended to run a gas generator. **Mr. Walden** said that it depends, but he thinks that it is.

**REP. DELL** asked about the net metered philosophy. **Ms. Hadley** said that net metered is a system where all the solar projects and wind projects have a special meter that is put on the house so that when the systems are put in place and running, it moves the electric meter that you have backwards. It will only go back to zero. It is one of the selling points for renewable systems. **Ms. Lynn** said that it does cause the customer's meter to go backwards, the electricity goes back to MPC system to meet the energy needs of other customers. **Ms. Hadley** said that there is a lot of interest by farmers and ranchers who are interested in net metering so that they can move their meters backwards and then use it later on.

**MR. BRAINARD** said that the PSC had some rate making decisions regarding distribution. He thinks that it is important to consider that there are some unintended consequences and side lines to these issues. For example, if you contentiously save energy throughout the system and minimize the amount of electricity that is distributed to the customers, that will raise the cost of those kilowatt hours as they are reduced to maintain that utilities compensation. There have been discussions saying that saving energy is cheaper than producing energy, and in a sense it is. However, we are never going to be able to save energy and zero this thing out. As technology expands we find more uses for electricity. Consequently, you are almost always going to get into a situation where when you need new generation

it will appear to be expensive.

**REP. DELL** said that as much as possible, we need to help consumers find economic reasons to make energy efficient decisions about what they do. What he hears **MR. BRAINARD** saying is that there is a diminishing return even to that. **MR. BRAINARD** said that there could be.

**REP. DELL** said that in the immediate future, he wants to see the type of net metered approaches that can help people make economic decisions to be energy efficient.

**MR. BRAINARD** said that with net metering, you are not reducing the amount of generation, you are adding to it. Overtime distributed generation will enhance the system regardless of how it is generated.

**Mr. Walden** said that they have seen what **MR. BRAINARD** is referring to. They did see consumption drop in the 1980's. There are a lot of cost effective conservation measures that are not being invested in. If the utility doesn't get any return on the net metering, the revenue for the poles and wires could drop to zero. That means that the other customers will pay for those poles and wires, which would be an unintended cost shift.

**MS. YOUNG** said that MPC recognizes the consequences that are being discussed, but the point that MPC is at with net metering right now is not such a large volume of net metering that any significant impacts on other customers are being caused. The goal is to get experience with net metering and then start figuring out how to deal with these sorts of technologies. These will develop over time and it is important to start getting experience with them.

## **VIII HOW OTHER STATES (ESPECIALLY IN THE REGION) ARE FUNDING AND IMPLEMENTING UNIVERSAL SYSTEMS BENEFITS PROGRAMS**

**MR. EVERTS** referred to **Attachments 15 and 16**. 21 states have USB style programs and the District of Columbia. The amount of money flowing for those programs is \$1.984 billion. The Environmental Protection Agency (EPA) has instituted over a \$40 million per year discount program for energy efficiency and renewables. It has budgeted at least \$75 million for low income assistance, energy efficiency, and market transformation. This has gone into the wind power market as well.

California generates about \$525 million dollars per year for their USB. Oregon has set 3% funding for its energy efficiency, low income weatherization. That will start up March 1, 2002 and the charge will last for at least 10 years. Oregon has created an energy trust fund that will be established to direct the allocation of the USB funds. It is expected to raise \$50 million to \$70 million per year. North Dakota has had some donations, but very little activity in terms of state funded or utility funded conservation or renewables. South Dakota and Idaho are the same.

## **IX SUBCOMMITTEE DISCUSSION AND INSTRUCTIONS TO STAFF**

**MR. BRAINARD** said that he is interested in seeing what can be done to increase the amount of

USB money that goes for direct assistance to low income people. Some of the things that the USB money is used for now as far as conservation have some market considerations that will drive people to more conservation. The Subcommittee should look at that and see how to incorporate the money.

**MR. EVERTS** said that part of the statutory charge of the Committee in evaluating whether to continue funding USB programs is a determination of whether markets exist out there already for these activities. At the next meeting there will be a panel discussion that addresses markets. They will be able to look at whether markets exist for the programs that are talked about.

**SEN. McNUTT** said that there is a statewide mandated fee that is going into the 2.4%. Some people got benefits and some didn't. In the MDU area it was a simple rate increase. Some of the people that were impacted the greatest were the municipalities, schools, hospitals, etc. The way this system is set up, those entities are not big enough to be self directed or get any return on that assessment. USB credits are perceived as a tax that is going to low income assistance. The Subcommittee needs to look at the makeup of that if it is going to continue. There are two different cultures in this state and both need to be looked at.

**SEN. McNUTT** asked what the increase to MPC customers was. **MS. YOUNG** said that prior to the USB charge, MPC funded the low income discount as an expense. The conservation investments were collected in rates over 20 years. When USB went into effect, they began recovering all costs associated with public purposes on an annual basis. It is no longer amortized over 20 years. MPC has also had a rate decrease that offset those historic investments when the generation was sold.

**SEN. McNUTT** said that there was a 9 mil fee in the large consumers' rate that they now get to self direct for enhancements and capital investments in their facilities. If those investments have value, it could be said that they got a rate decrease. We have a tremendously unbalanced system in this state. There are a lot of unhappy MDU customers.

**REP. DELL** said that there needs to be a flexible system and a fair system.

**MR. BRAINARD** said that there is a myth that somehow regulation of the utility ends up with the lowest possible cost to the consumer, but that is not necessarily true. It seems that there is a natural market force that would push large customers to do conservation even without the USB credits. He feels that most individuals would respond the same way.

**REP. KEANE** said that often we take the nearsighted approach. The testimony today said that there has been significant benefit of the program. It is a tax, but if you want those services, you are going to have to pay for them. This cost, spread over everyone, benefits us all in a significant way. Eliminating it would eliminate the savings for the foreseeable future. This program has significant value and we should all participate in it.

**REP. DELL** agreed. There have been a lot of positive net results with this program. There needs to be a flexibility to it to meet the needs in the various areas of the state.

**MR. BRAINARD** said that one of the problems with centralized decision making is that it is very difficult to predict or encompass all the possibilities in the future and try to make decisions at a given point in time regarding all those possibilities. As time goes on, he can foresee other needs in the system that the USB could be used for depending on the utility and the customers. This Committee should look at ways to make the program more flexible so that all the customers can see some benefits.

**MS. YOUNG** said that schools, hospitals, and local governments have been primary targets for MPC energy efficiency programs for more than 10 years. They are excellent candidates and a great way to maximize benefits in more avenues. There are opportunities for different kinds of customers; it is a matter of how the program is designed and funding is allocated.

**SEN. McNUTT** agreed with that, but there are two different cultures in this state. The program design may be flawed, but it appears to the MDU large customers as a huge hit. There are some benefits, but they are not balanced. One size doesn't fit all right now.

**MR. HARDY** said that there are so many different layers of USB that it is hard to generalize. It is a good program. The cooperatives will be fine-tuning how they deliver that service and that flexibility. They want to get to the most needy.

**MR. EVERTS** said that if there are any requests for the next meeting, members should call him.

**X      ADJOURN**

There being no further business, the meeting was adjourned.

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